



# *Business Tax Competitiveness Study: An Update*

Presented to the Interim Revenue Stabilization and Tax  
Policy Committee  
Santa Fe, New Mexico

October 24, 2011

RICHARD L. ANKLAM, PRESIDENT &  
EXECUTIVE DIRECTOR

[WWW.NMTR.ORG](http://WWW.NMTR.ORG)

# NMTRI Principles of Good Tax Policy

2

*N.M. Tax Research Institute is a non-profit, non-partisan member-supported organization dedicated to advancing the following principles of good tax policy in New Mexico:*

- ***Adequacy***
  - Revenues should be sufficient to fund needed services
- ***Efficiency***
  - Interference with the private economy should be minimized
- ***Equity***
  - Taxpayers should be treated fairly
- ***Simplicity***
  - Laws, regulations, forms and procedures should be as simple as possible
- ***Comprehensiveness***
  - All taxes should be considered when evaluating the system
- ***Accountability***
  - Exceptions should be rare and should be carefully evaluated and justified

# New Mexico Has “Green” Manufacturing Opportunity

3

- Solar manufacturer seeking location for plant
  - Project Alpha/April
  - Albuquerque in the running
  - City of Albuquerque, AED, PNM, Mesa del Sol working deal
  - Intel scale potential through 4 phases
  - Albuquerque team travels to company HQ
  - Target sends teams to NM

# New Mexico Loses Opportunity

4

- Solar manufacturer chooses Mesa, AZ
  - Gets “deal” in Arizona
  - Company cites some tax concerns
    - ✦ Absence of single sales factor option (corporate income tax)
    - ✦ GRT on electricity
      - Targets costliest input
      - Consumes as much power as Santa Fe
  - Mayor Berry wants to address “problem”
  - Advisors suggest credible study of tax competitiveness
    - ✦ Recall 1997 KPMG Barents Group Study by EDD, Silver City
    - ✦ But, time consuming and expensive

# New Study Published

5

- Council on State Taxation (“COST”) commissioned Ernst & Young’s Quantitative Economic and Statistics group to perform 50 state study:
  - Looks at \$100M investment in:
    - ✦ C-corporation
    - ✦ Largest City (property tax)
    - ✦ Statewide Average (sales tax)
    - ✦ Five sectors
      - Durable Goods Manufacturing
      - Non-durable Goods Manufacturing
      - Office and call center facilities
      - Research and Development facilities
      - Headquarters facilities

# New Study Published

6

Study looked at effective tax rate/after tax  
ROI over 30 year investment

**AND NEW MEXICO RANKED...**

# New Study Published

7

# 51!

\* Study included District of Columbia

# Study Comments on New Mexico Tax

8

And the winners were (weighted by capital investment):

- ✦ 1 - Maine (3.0%)
- ✦ 2 - Oregon (3.8%)
- ✦ 3 - Ohio (4.4%)
- ✦ 4 - Wisconsin (4.5%)

Rounding out the bottom:

- ✦ 47 - Kansas (11.2%)
- ✦ 49 - Rhode Island (11.5%)
- ✦ 50- District of Columbia (16.6%)
- ✦ 51 - New Mexico (16.6%)



# Study Comments on New Mexico Tax

9

“New Mexico uses an equally weighted corporate income apportionment formula... For the hypothetical facilities, this means that roughly two thirds of the additional income attributable to the new investment will be subject to tax in New Mexico. In addition, New Mexico’s corporate tax rate is slightly above average (7.6% in New Mexico compared to a nation-wide average of 6.7%).”

- New Mexico’s corporate tax rate is highest in the region with the exception of California

# Enhanced Study Commissioned

10

“New Mexico imposes a gross receipts tax on virtually all business activity. The tax is levied at a relatively high tax rate for a gross receipts tax (5.125% at the state level) plus a local tax comparable to retail sales taxes. However, unlike a retail sales tax, it applies to most services... Therefore, this analysis treats the tax as a sales tax with few exemptions, **resulting in a significant tax burden for facilities that purchase a large amount of services and other inputs typically exempt from (other states’) state and local sales taxes.** In sharp contrast to New Mexico, Ohio, ranked the 4th most competitive state, imposes a gross receipts tax at a rate of 0.26%.”

# Study Has Flaws and Limitations

11

- Study did not include incentives
  - i.e. states that don't tax manufacturing equipment “got credit”, while our Investment Credit did not count
  - IRB's not in model, nor JTIP , HWJTC, TJTC, etc
- Used simple corporate income assumptions
  - Combined filing not modeled
  - NM filing options not considered/evaluated
- Modeling GRT difficult
  - Mistakes likely
- Taxes certainly not only determinative factor in site selection and overall cost

# Enhanced Study Commissioned

12



# Enhanced Study Commissioned

13

## Multi-Client Coalition Supporting Study:

- Albuquerque Mayor Berry initiates study, engages NMTRI
- Other supporting entities:
  - Bernalillo County, PNM, GACC, NMML, NAIOP, GAAR, SWMLS, MCA, SMACCA, CARNM
- State Executive and Legislative support:
  - EDD
  - TRD
  - DFA
  - LFC

# Enhanced Study Commissioned

14

NMTRI has engaged E&Y to:

- Include incentives in tax calculations for eight states
  - AZ, CA, CO, NV, OK, OR, TX, UT
- Add rural location (Deming)
- Add industries
  - Computer & electronic mfg, electrical equip, aerospace products and parts, management scientific, and technical consulting, and food processing
- Ask additional policy questions
  - Effect of rate changes, deductions, etc.

In addition, NM detail to be validated by  
NMTRI/TRD/DFA

# Enhanced Study Commissioned – Cont'd

15

Using model with incentives, study will estimate impacts of these policy options on competitiveness:

- Changing GRT or Corporate income tax rates
- GRT deductions for manufacturing and other sectors' inputs
  - ✦ electricity sold to manufacturers or , natural gas, other “consumables”, etc.
  - ✦ Services
- Single and double-weighted sales factor elections (corporate income tax)
- GRT deduction for mfg equipment (maybe instead of ITC)
- Other incentives/wage subsidies

# Enhanced Study Commissioned

16

Goal: Provide an analytically sound way of addressing questions of perennial interest to the Legislature and Administration and local governments, economic developers and other interested New Mexicans:

- How does NM's tax on new investment compare with other states?
- Which components of NM's taxes are most/least competitive?
- How would policy changes affect NM's competitiveness?

The results will be presented to interim legislative committees and others



# Questions

17

